

GPSG Working Paper #05

Greece and the EMU: The Realignment of an Evolving Public Opinion

*Angelos Gkanoutas-Leventis
PhD Candidate, Department of International Politics,
School of Social Sciences,
City University London*



Abstract

The aim of this paper is to study the sudden and abrupt turn in the Greek public opinion towards the single currency after the accession of Greece in the EMU. The terms and method of accession are being examined along with the optimality of the process for the determination of the Greek Drachma to the Euro conversion rate, in order to determine whether these factors had any influence in the above effect. According to this paper's calculations, which employ the Lamfalussy rule and real economic data, the conversion rate by which the Greek economy entered the EMU was lower than the optimal rate, creating this way a virtual devaluation of the currency on accession. While this discrepancy provided the Greek economy with a short run competitiveness boost, its long run effects mainly consist of inflationary pressures affecting this way the public's opinion of the new currency.

Keywords: *Economic and Monetary Union (EMU), Euro, Public opinion*

Author Bio: **Angelos Gkanoutas-Leventis** is a researcher and PhD candidate at the department of International Politics of the City University, London. He has acquired a BSc in Politics and Economics, and an MSc in Government and Policies of the European Union from Brunel University and the London School of Economics respectively. He is currently completing his doctoral thesis on 'the Political Economy of Financial Behaviour and the Role of the Oil Market', in which he examines the overlooked role of the oil market in the behaviour of the international financial markets. His research interests are mainly focused on the Greek and International Political Economy as well as Behavioural Economics and Finance.

Acknowledgments

I would like to thank Mr. Nikolas Garganas, former Governor of the Bank of Greece, for allowing me to interview him and for answering my questions on the topic. I would also like to thank Mr. Tassos Mantelis (former Transport and Communications Minister), Mr. Yannis Kypris (Group Chief General Manager, Bank of Cyprus), Dr. Christos Patsalides (Group Treasurer, Bank of Cyprus) and Mrs. Jenni Skotidi (Regional Manager, Global Finance Institutions, EFG Eurobank Ergasias S.A.) for providing me with their thoughts and comments on earlier versions of this paper.

Table of Graphs

Graph 1: *The relation between the exchange rate, and output through the Mundell-Fleming model the Short Run Philips curve*

Graph 2: *The Short Run Philips Curve*

Graph 3: *Long Term Interest Rates for Greece*

Graph 4: *Yield of one-year Treasury bills*

Graph 5: *Drachma/Ecu Exchange rate*

Graph 6: *Government net borrowing/net lending for Greece*

Graph 7: *Consumer Price Index for Greece (inflation rate)*

Graph 8: *Unit Labour Costs for Greece*

Graph 9: *Trade in goods and services for Greece*

Graph 10: *Gross Domestic Product for Greece*

Graph 11: *The Lamfalussy Value of The Greek Drachma*

Graph 12: *The ERM value of the Greek Drachma compared to the Lamfalussy value*

Graph 13: *The Greek Public Opinion for the Single Currency*

Graph 14: *The Greek Public Opinion on the Biggest Problems Greece Faces*

Graph 15: *Registered Unemployment Rate for Greece*

Table of Figures

Figure 1: *Maslow's Hierarchy of Needs*

Introduction

According to economic theory, the adoption of a new currency may yield instabilities in national economies by directly affecting competitiveness and employment. An overvalued conversion rate creates the risk of a depression, while a devalued one boosts competitiveness in the short run but creates inflationary pressures in the long run. In the case of the EMU, where both a new common currency and a common Central Bank were introduced simultaneously, member states would not be able to respond effectively to the effects of a sub optimal conversion rate. The loss of monetary policy control meant that once the conversion rates were determined the member states would not be able to readjust their exchange rates; as a result the economies would be locked in with the effects of sub optimal conversion rates. The pressure for an efficient method for conversion rate determination was very strong; however, the debate that took place on this issue was very limited compared to its importance.

The example of Greece will be used by this study in order to examine whether the method used for the conversion rate determination was the optimal one. The debate that took place on the method that should be employed on the creation of the EMU is going to be presented, along with the reasons why the method proposed by a study from the Centre of Economic and Policy Research was preferred. This examination of the Greek case is going to be based on the assumption that the Lamfalussy rule for conversion rate determination, an alternative method proposed, would have been able to produce

conversion rates more representative of the European economies as proposed by many academics. The fact that the conversion rate by which Greece entered the EMU in 2001 was sub optimal relative to its Lamfalussy value will be presented and verified. By employing the Mundell-Fleming macroeconomic model, the effects that the Greek economy faced after joining the Monetary Union will be argued to be characteristic of currency devaluations.

The second part of this study will focus on the ways in which the Greek exchange rate policy affected the trends of the public opinion for the single currency. Greece had one of the most positive public opinions in Europe for the single currency on the run up to EMU. Nevertheless, in 2003 a sudden change in its trends turned it into one of the most negative opinions towards the Euro. The reasons behind this sudden change of mind will be studied, while the importance of the external empowerment that the EMU project provided to the national governments will be stressed in distinguishing two different periods in the Greek public opinion. What is more, the determinants of the Greek public opinion are going to be examined along with the effects which a sub optimal conversion rate could and did have on them.

By proving the existence of a link between the exchange rate policy of Greece, the suboptimal conversion rate and the public opinion towards the euro, this study attempts to illustrate the importance of optimal conversion rates in the formation of a single currency union. The public opinion is becoming increasingly important in policy formation, and thus establishing a link between the two confirms that in the long run, short-sighted policies tend to have constraining effects for policy makers. The success of the EMU project has overshadowed many details, which could have jeopardised the economic stability of the Union in the aftermath of the project. This study, by arguing that the method used for the conversion rate determination was not optimal, should raise concerns in the EMU about the method which is going to be employed for future EMU entrants, especially in an economically turbulent period such as this.

Conceptual Framework

3.a The EMU, Conversion Rates and Exchange Rate Policies

While many political and economical arguments took place before the creation of the European Economic and Monetary Union, very few debates focused on the importance of an efficient method for determining the conversion rates of the national currencies to the Euro. The lack of debates on this issue was even pointed out by the Economist magazine on the 11th of April 1998 which claimed that *'debate about its potential effects has been noticeable for its absence'* (Bohn, 2003: 1). While the vast legislation which was prepared for the setting up of the EMU contained impressive detail regarding the timing and method of the euro introduction, it was largely silent on the crucial issue of the setting of the irrevocably fixed euro conversion rates. Even the Maastricht treaty did not provide any substantial proposals for how the conversion rates would actually be determined. In fact, the only reference to a conversion process mentioned in the treaty was that,

'at the starting date of the third stage, the Council shall, acting with the unanimity of the member states without derogation, on a proposal from the Commission and after consulting the ECB, adopt the conversion rates at which their currencies shall be irrevocably fixed and at which irrevocably fixed rate the Ecu shall be substituted for these currencies' (Maastricht Treaty, Article 109.1).

This created a very crucial gap in the blueprint of the EMU. Especially since the success of Monetary Unions, according to theory, depends to a large extent, on the efficiency of the

conversion rates of the national currencies to the single currency unit. *'A jump in an exchange rate even as little as 5% or 10% could seriously change the competitiveness of the EMU economies and make the entry into EMU very unattractive'* (Begg et al, 1997: 19). One could search the texts in vain in order to find a clear indication of the actual method that was going to be employed for the determination of the conversion rates of the currencies involved in the EMU. The only point where reference is made on the exchange rate policies that should be followed on the way to EMU was in the exchange rate criterion of the Maastricht treaty (Lipinska, 2008: 7). This criterion stated that in order to qualify for EMU entry the member states had to ensure that for two years after the irrevocable fixing of their currencies, no currency devaluation could take place.

The pressure for a method that would be able to determine representative conversion rates and at the same time be economically viable in the long run was high. A conversion rate higher than the actual value of the currency would provide greater purchasing power, but it would also make foreign imports cheaper. Competitiveness of the domestic suppliers would be reduced both domestically and internationally. On the other hand, in the case of lower conversion rate, the demand for domestic products would be stimulated by a cheaper currency, but domestic consumers would be worse off as their purchasing power would be reduced (Talani, 2004: 48).

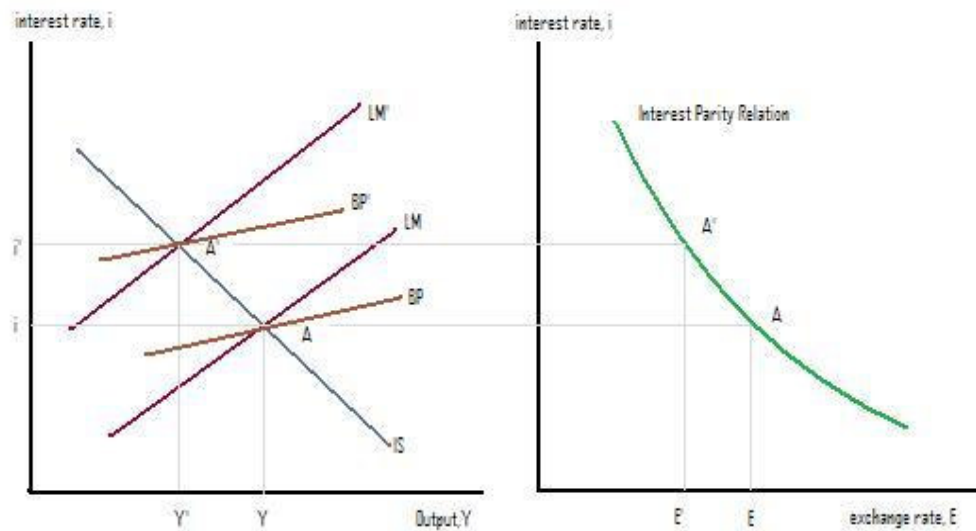
'A real depreciation can encourage exports, switch expenditures away from imports into domestic goods, invigorate the tradable sectors of the economy, and boost aggregate output. But a real depreciation can also be contractionary, because real money balances shrink as the result of the higher price level' (Frieden, 2008: 349).

These effects are clearly demonstrated by economic theory, and more specifically by the Mundell-Fleming model. This is a macroeconomic model which links the monetarist economic equilibrium with the real viable equilibrium. The monetarist equilibrium is the balance between the supply and demand for money and is illustrated by the plotting of a line called the LM curve. The real variables equilibrium, is the balance between savings and investments which is usually plotted in the form of the IS curve. The external economic relations are also depicted in this model through the BP curve which demonstrates the Balance of Payments of the economy (Talani, 2004: 52). The Mundell-Fleming model can be easily linked with the exchange rate through the use of the Interest Parity Relation, and the Unemployment rate through the use of the Phillips curve.

As Graph 1 illustrates, a change in the exchange rate ($E-E'$) has direct effects in both interest rates ($i-i'$) and output productivity ($Y-Y'$) in the Mundell-Fleming model. An appreciation of the price of the national currency will lead to loss of competitiveness for the domestic producers. This will trigger a leftward shift of the LM curve as the output levels of the economy will be reduced. The result of this shift will be an increase of the interest rates in an attempt to reduce the inflationary pressures of a rising price level. However, an increase in the interest rates will result in the increase of Unemployment in the economy as the Inflation and Unemployment rates are inversely related as illustrated in the Short Run Phillips Curve in Graph 2 (Blanchard, 2003: 425). Therefore, as the increased interest rates will reduce the inflation rate of the economy, the unemployment rate will have to increase, and vice versa.

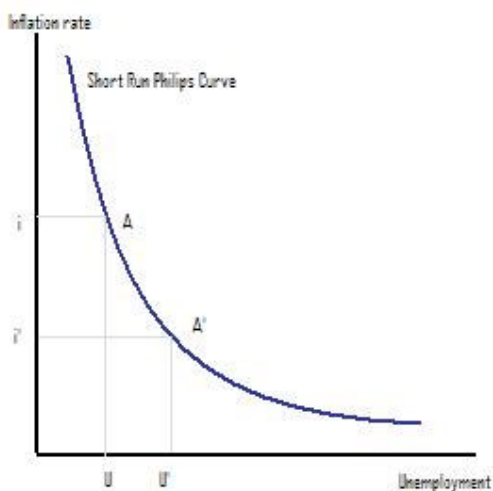
Consequently, policy makers face a trade off between being tempted to increase competitiveness of national producers or boosting domestic consumption. As Begg et al (Begg et al, 1997: 24) argued in a study performed for the Centre for Economic Policy Research, when a Monetary Union is set up with a single currency, the incentives for a devaluation of a currency prior to conversion are very high as they get automatically locked in by the conversion.

Graph 1: *The relation between the exchange rate, and output through the Mundell-Fleming model the Short Run Philips curve* (Blanchard, 2003: 425)



The most obvious temptation is to engineer a conventional monetary expansion that will boost aggregate demand and ameliorate any remaining fiscal difficulties. Such an expansion will be accompanied by a temporary exchange rate depreciation which will stimulate exports. The incentives for such a policy will be even stronger if governments expect that the conversion rate picked at the start of the currency union will simply validate any depreciation and allow their economy to enter EMU with a competitive advantage. The positive effects of such a policy only last until the output prices manage to finally adjust to the new equilibrium (ibid, 1997: 24); however, they are able to provide the economy with a short term boost in competitiveness. Nevertheless, while a sub optimal conversion of a currency might be beneficial for an economy in the short run; negative economic pressures will arise in the long run, which in the absence of any monetary policy tools will eliminate any positive effects of the short run.

Graph 2: *The Short Run Philips Curve* (Blanchard, 2003: 425)



3.b. Conversion Rate Determination, the CEPR Method

The CEPR study (ibid, 1997) argued that bilateral exchange rates should be set in advance as a way of avoiding the intervention of the market forces in the exchange rate determination process. It examined several of the proposed solutions for determining the irrevocable conversion rates, including floating bilateral rates, fixed Ecu exchange rates, the Lamfalussy rule and the Bartolini-Prati bands.

The authors rejected all of these solutions by stressing out their inefficiencies and instead proposed that the most efficient method was to set bilateral conversion rates in advance. They argued that the conversion rates should be calculated by using the existing central parities of the national currencies in the ERM. The central parity which would be agreed would summarize the exchange rate commitments, to which member states would be held as the transition expired. In the mean time, the national currencies would be allowed to fluctuate freely within the ERM of extended bands (15% instead of 2.25%)¹. However, these central parities would be calculated parities and not the result of market transactions, as the CEPR paper argued the markets would not be able to produce efficient conversion rates. Following this method, the central rates were announced in mid-1998 (Preda: 16) and for most of the countries acted as their final conversion rates for EMU accession. In the case of Greece, as it will be discussed in this paper, the central rate was reviewed and revaluated in 1999.

3.c. Conversion Rate Determination, the Lamfalussy Rule

This study will not question the reasoning behind the choice of the European Council to use the CEPR proposed method instead of the other proposed methods. This is because the arguments put forward by both the CEPR paper (Begg et al, 1997), and Paul De Grauwe against the use of those methods can persuade even their most passionate supporters that there were substantial risks associated with the use of the alternative methods. Nevertheless, what this study will argue is that while the other proposed methods had flaws, so did the CEPR method. Its biggest flaw is that one of the other proposed methods, the Lamfalussy rule was argued to produce conversion rates which would be more representative of the economies than those produced by this method. Fact that implies that while the risks associated with the Lamfalussy rule were credible, as it would be prone to speculative attacks (De Grauwe, 1994 : 23), policy makers were fully aware of the fact that the CEPR conversion rates would not be optimal. This generates the assumption that the CEPR method was chosen as the less flawed method, and not as the optimal method.

The Lamfalussy rule which was claimed to produce more efficient conversion rates, proposed to use the average of the market rates of each national currency over a three year period. Preferably, as Mr. Lamfalussy² himself proposed, of the period 1996 to 1998 while its use should be announced on the 31st of December 1998 in order to reduce the risk of speculative attacks and politically driven devaluations (ibid, 1994: 11). The advantage of this rule was that it would inverse the orthodox determination of exchange rates. *'While normally buy and sell decisions are based on expectations of future exchange rates, under the Lamfalussy rule, future exchange rates would be based on present and past buy and sell decisions'* (Temperton, 1997: 137). In other words, with time, markets would become increasingly more aware of the final conversion rates, as the average would also become increasingly harder to alter. Expectations would then be formed around the average of the exchange rates up to that point, and as a result the exchange rate would become

¹ Changed temporarily from 2.25% to 15% after the ERM crisis of 1992 but never changed back.

² Baron Alexandre Lamfalussy: European economist, central banker and founding president of the European Monetary Institute.

increasingly more stable as the final day drew closer. The Lamfalussy rule does not necessarily exclude a politically inspired devaluation which could happen at any time; however, policy makers would know that as this method uses an averaging mechanism, *'any attempt to achieve a good deal must come long before the launch of EMU membership. Also to have any effect, a late depreciation would have to be very large'* (ibid, 1997: 137).

The fact that the Lamfalussy rule would have produced conversion rates more representative of the actual values of the currencies has been argued by Paul Temperton. He uses Ireland as a case study to prove that while the outcomes of this rule would not be very different than the ones produced from the CEPR method in countries where their currency traded close to the ERM central rates; the same was not the case for the rest. He argues that the Lamfalussy rule in the case of Ireland,

'would have given rise to less exchange rate movement and would result in a fixed rate which, while it would be lower than the rates prevailing in mid-1997, would be significantly above the existing ERM central rate and, would be more in keeping with the needs of the economy' (ibid, 1997: 144).

In addition to this study, Frank Bohn argued that members joining any monetary union are likely to experience considerable macroeconomic effects after their transition into a monetary union. He uses the Lamfalussy model to prove that:

'Weak currencies are undervalued because of depreciation expectations caused by historically low monetary stability. Forming or joining a monetary union eliminates these expectations. If conversion rates are determined by the market, they turn out to be close to purchasing power parities' (Bohn, 2003: 19).

Finally, even Paul De Grauwe, whose argument against the use of the Lamfalussy rule was one of the fiercest put forward, accepted that: *'The Lamfalussy rule is inheritably more credible than a fixed conversion rate because it permits drift in the exchange rate in response to changes in fundamental variables'* (De Grauwe, 1994: 23). Accepting those arguments, this study assumes that the conversion rates that would have been produced had the Lamfalussy rule been used are the most representative of the actual value of the national currencies. Therefore, in examining the case of Greece, the calculation of the conversion rate using the Lamfalussy rule will be used as a benchmark indicating the *'optimal'* conversion rate which should have been used for the entry in the EMU.

3,d. The Public Opinion and Monetary Policy

The role and importance of the public opinion in policy making has been increasing along with educational standards and access to information in today's society. The office seeking instincts of political parties along with the fear of the political cost associated with policies lacking the support of the public has led policy makers into taking under consideration the public opinion trends all the more often.

Policy making bodies are allowed to form their policies more freely when they have secured output legitimacy from the public than when they haven't. Inglehart in two of his papers argues that two developments in society have significant political and economic implications. The first change he identifies is an evaluative change where

Figure 1: Maslow's Hierarchy of Needs (Union.umd.edu, 2008)



the public gradually shifts from materialist to post materialist values, or more clearly, *'from giving top priority to physical sustenance and safety toward heavier emphasis on belonging, self-expression, and the quality of life'* (Inglehart, 1990: 66). He claims that a big part of the *'western publics'* has grown up in economic security; hence, while they still care about their physical security, it has stopped being their priority (ibid, 1977: 5). Instead, they value more post materialist ideas such as economic stability, belonging and human rights. A more cosmopolitan political identity is formed with time. This argument is also backed up by Maslow's hierarchy of needs theory where people's needs and interests develop with time (Liphart, 1990: 152). Maslow claims that once people secure each of the five levels signified in the Hierarchy of Needs pyramid, their interests shift to the next one.

The second development identified in Inglehart's works is *'cognitive'* (Inglehart, 1977: 293-5). The meaning of this term is best explained as a *'process by which an individual comes to know and interpret his environment'* (Theodorson, 1969: 56). His argument is that people realise that political and economic decisions affect them and their lives, thus they develop an interest and understanding for politics with time. Consequently, Inglehart identifies a *'development of the skills needed to manipulate political abstractions and thereby to coordinate activities that are remote in space and time'* (Inglehart, 1977: 259). As a result Inglehart's work has provided us with evidence that individuals values, political conceptions and interests evolve with. It is fair to assume thus, that as individuals' values evolve, so do the values of the collective. This means that the public opinion gets increasingly influenced by post materialist values and develops the skills required for its understanding in order to have a greater say in it.

Several studies have tried to examine the exact extent at which economic performance affects the public opinion and political parties. Jonung and Wadensj (Jonung and Wadensj, 1979: 343-53) examined the effects of unemployment, inflation and income growth on the popularity of governments in Sweden during the period 1967 to 1978. They concluded that the performance of the first two indicators has direct effects on the popularity of governments. Although the growth of real income is positively related to the popularity of the governments, it is not as significant as the former two fundamental economic indicators. On a very similar study in terms of the topic and the sample used, Hibbs and Madsen (Hibbs and Madsen, 1981: 33-50) concluded that only the unemployment rate was significantly related to the public opinion for the governments' performance. This difference was attributed to the use of a different model.

Additionally, two studies on the impacts of economic concerns on the political behaviour in Norway, the first by Miller and Listhaug (Miller and Listhaug, 1984: 301-19) and the second by S0ersen (S0ersen, 1987: 301-21), argued that economic factors such as inflation and the unemployment rate have a direct impact on individuals' evaluations of the political parties. These studies were based on data collected in national election surveys in Norway. The latter was limited on the period 1963 to 1986. What is more, a study by Nannestad and Paldam (Nannestad and Paldam, 1993: 186-206) employed pooled cross data in order to examine the influence of the economic conditions on the popularity of the government amongst the Dutch electorate. They argued that while the correlation exists, it is much stronger for individual experiences of the economic conditions rather than actual awareness of the macroeconomic situation.

Finally, Mikko Mattila (Mattila, 1996: 583-595) came to generalise the findings of these studies by arguing that economic performance in Scandinavian countries is significantly correlated to government popularity and election outcomes. The above studies provide us with enough evidence to establish a strong link between economic performance and public opinion trends. In periods of bad economic performance the public opinion will be negative, while in periods of good economic performance, the public opinion will be positive. In order to examine how and why this effect takes place, the case of Greece will be examined.

Case Study

4.a. The Case of Greece, Exchange Rate Policy and Accession

In order to demonstrate the correlation and causality between the exchange rate policies for accession in the EMU and the public opinion, this study will examine closely the case of Greece. This is because Greece was unique in its exchange rate policies prior to the EMU accession. Initially Greece was not considered to be one of the countries that would join the monetary union in the first wave of 2001.

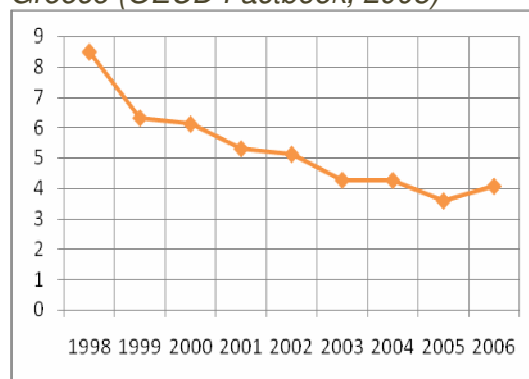
'Through 1994, the performance of the Greek economy was pretty dismal. Growth was almost flat, and inflation and the fiscal deficit as a percentage of GDP, were in the double-digit levels throughout the period. Other EU countries were moving forward in their quests to become members of EMU while Greece was falling farther and farther behind' (Garganas speech, 2003).

Nevertheless, Greece followed a non accommodative monetary policy named the '*Hard Drachma*'³ inaugurated since 1990.

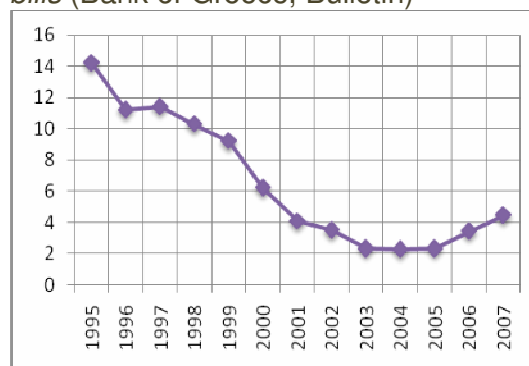
This policy focused mainly on keeping the interest rates as high as possible, especially relative to its European partners (ibid, 2000), in order to achieve a normalisation of the inflation rates which had reached over 20% during the previous decade. The '*Hard Drachma*' policy is clearly depicted in Graphs 3 and 4, where one can see that the levels of the long term interest rates and one-year Treasury bills were at 8.48% and 10.3% respectively in 1998. At the same time, the long term interest rates set by the Deutsche BundesBank were at 4.6% and the ones set by the Bank of Italy were at 4.9%; the Euro average was at the level of 6% (OECD Economic Outlook 83). This policy, initiated by the Mitsotakis government of New Democracy of 1990, was revised by the PASOK⁴ government of Papandreou of 1993 and was continued by the Simitis government of 1996 (Lazaretou, 2003: 31).

In 1997 the Central Bank of Greece was granted full independence from the government in an attempt to satisfy the Maastricht criterion and by 1998 *'there was a growing sense of attainability of the EMU nominal convergence targets'* (Pagoulatos, 2003: 129). However, while the domestic feeling was very positive; the same did not apply for the international communities. Even though Greece had already met the budget deficit criterion, it was clear that the rest of the criteria would not be met on time. This international pessimism started changing rapidly after the 16th of March 1998 when the Greek government took financial markets by surprise on Friday the 14th of March 1998 when it announced it had applied to immediately join the up to then 12-member ERM,

Graph 3: Long Term Interest Rates for Greece (OECD Factbook, 2008)



Graph 4: Yield of one-year Treasury bills (Bank of Greece, Bulletin)



³ Drachma: the name of the official national currency of Greece before the EMU accession.

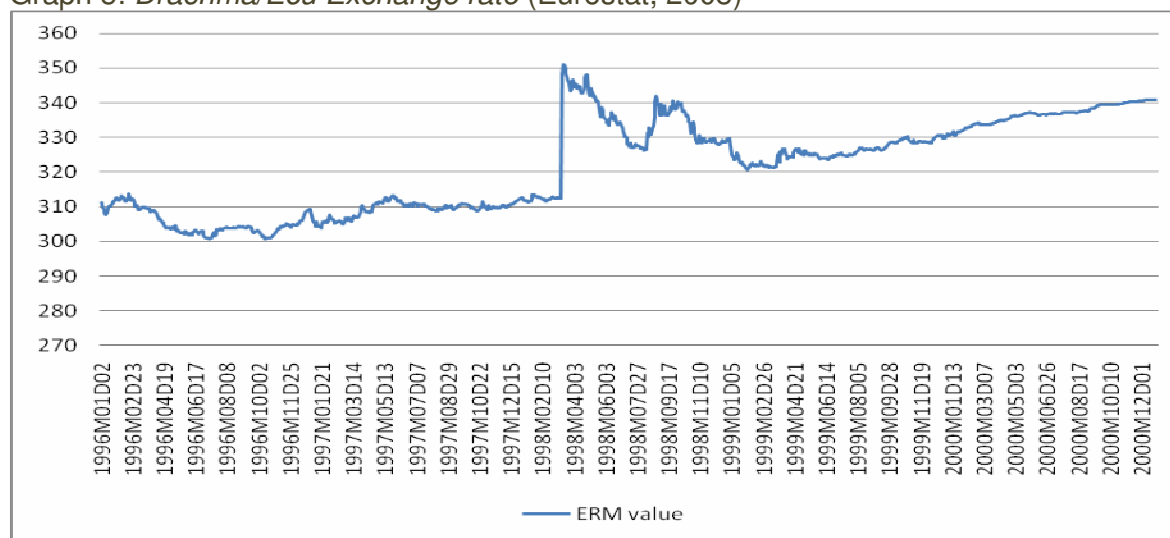
⁴ PASOK: Pan-Hellenic Socialist Party.

following a day of speculation in which the drachma fell sharply against the ECU. The Prime Minister Costas Simitis said in a televised address to the nation that the drachma devaluation and the ERM entry were necessary for Greece's membership in the EMU, adding that he wanted Greece to enter the euro-zone in 2001 (Athens News Agency, 2008).

The Greek Drachma had finally entered the ERM which would act as a very crucial test for the Greek economy and its ability to keep up with the international financial markets without suffering from potential asymmetries and financial crises (Simitis, 2004: 189). This devaluation assisted in the credibility levels of the new exchange rate arrangement, especially since a large financial crisis took place in Greece in 1997 (Stobbe, 2000: 64). At the same time, entry into the ERM demonstrated the credibility of the Greek attempt to enter the EMU on both financial markets and its European partners (Werner, 2008: 22).

The Drachma entered the ERM with a central rate of 357.109 Drachmas per ECU. This indicated a devaluation of 12.3% relative market price prevailing at the time. The magnitude of this devaluation is illustrated by Graph 5. Once the Drachma entered the ERM, a credibility bonus was experienced in the economy. *'Members whose ability to pass the test for EMU has been in doubt, are likely to face an immediate credibility bonus for a more disciplined monetary policy in the future. Such countries will experience a reduction in interest rates'* (Begg et al, 1997: 21).

Graph 5: *Drachma/Ecu Exchange rate* (Eurostat, 2008)



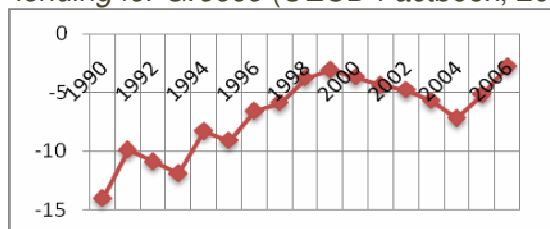
The European partners wanted to make sure that they would not risk the credibility of the project by allowing Greece to participate. Especially since the international financial crisis of 1992 had harmed substantively the credibility of the project. Therefore, Greece's entry was not handled freely. In order to ensure that Greece wanted to make a credible commitment in participating in the monetary Union, they insisted on the devaluation of March 1998. This devaluation had a dual target; firstly it took under account the high inflationary past of Greece, while keeping in mind the inflationary pressures that Greece would face in the way to EMU.

Even though the *'Hard Drachma'* policy had broken with the 1998 devaluation, the Central Bank of Greece tried to keep interest rates higher than its European partners for as long as possible, as they had to converge to the European ones and equalise on the day of the entrance in the EMU (Garganas speech, 2000). This policy along with the favourable international expectations which had started building up, led to Massive inflows of short term capital (Pagoulatos, 2000: 191). As Graph 6 illustrates, due to this capital inflow, the

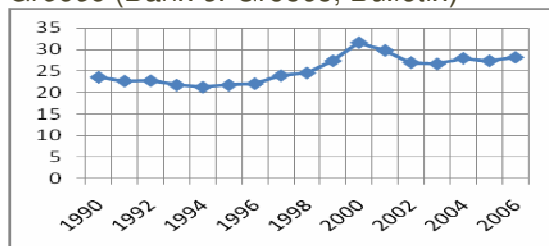
levels of net government lending and borrowing were reduced, reaching an all time low of -3.1%. The progress towards price stability was also very significant. This was a result of a tight monetary policy along with measures towards a fiscal contraction and the reduction of Unit Labour Costs by the signing of a wage agreement between the private sector Unions and the government (Garganas speech, 2000).

This social pact, even though it only covered the private sector, had a significant effect on the Labour Unit Costs as a whole. While in 1997 Labour Unit Costs reached 7.2% and 4.2% in 1998, in 1999 they were reduced to 1.7% (ibid, 2000) (Graph 8) which was significantly lower than the 2.6 inflation rate the same year as illustrated in Graph 7. This was very important for the reduction of inflation as in 1997 and 1998 the inflation rate was lower than the Unit Labour Costs at 5.5% and 4.8% respectively. The good performance of the economy appreciated the drachma relative to its central rate with the ECU in 1999. It now traded at about 7-8% higher than its central rate, which led the monetary committee of the European Union into revaluating the central rate into 340.75 Drachmas per ECU (Simitis, 2004: 193). This revaluation was very important for the Greek economy both for its timing and magnitude.

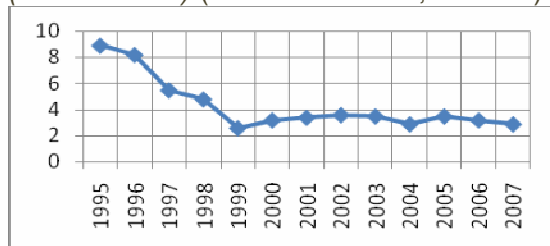
Graph 6: *Government net borrowing/net lending for Greece* (OECD Factbook, 2008)



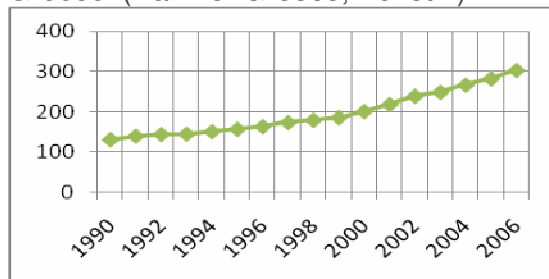
Graph 9: *Trade in goods and services for Greece* (Bank of Greece, Bulletin)



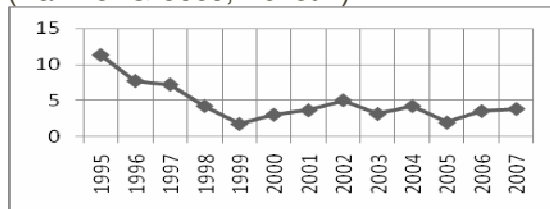
Graph 7: *Consumer Price Index for Greece (inflation rate)* (Bank of Greece, Bulletin)



Graph 10: *Gross Domestic Product for Greece* (Bank of Greece, Bulletin)



Graph 8: *Unit Labour Costs for Greece* (Bank of Greece, Bulletin)



Having devaluated the currency by 12.3% in 1998 the gains in competitiveness were obvious, but had this revaluation not taken place, the inflationary pressures created by a currency dropping by about 7-8% of its market value in order to reach the old central rate would be devastating. This way the Bank of Greece only had to engineer a depreciation of about 3% of the market value of the Drachma.

The economic consequences of this devaluation were much smaller than those which would have taken place had the central rate remained in its initial value. Moreover, the revaluated central rate, by coming a year after the devaluation, managed to reduce to a large extent the negative effects associated with the devaluation while maintaining the initial boost of the economy (Stobbe, 2000: 65).

This can be easily observed in Graph 9 where one can see that the trade balance continued to grow until 2000, when it briefly drops and settles at a level of about 27% which is 5 percentage points higher than the average of the 90's. What is more, Graph 10 illustrates that the appreciation of the central rate of the Drachma did not affect the accelerated growth rates of Greece. A kink in the plot of the growth levels of the Greek economy can be observed in 2000 which remain intact up until 2006. *'It is obvious that Greece has pursued an extremely skilful exchange rate policy in the past two years, placing it in the service of the inflation target and exploiting the scope given it by the Maastricht regulatory framework'* (ibid, 2000: 65).

On the first of January 2001, the aim of Greece to become the 12th member of the EMU was achieved. Greece managed to achieve economic convergence against all odds, which established it as a member of the European *'fast track'*. This was an opportunity, but also a challenge for Greece to manage to stay there and not get back to her usual habit of being in the sidelines of Europe.

Analysis

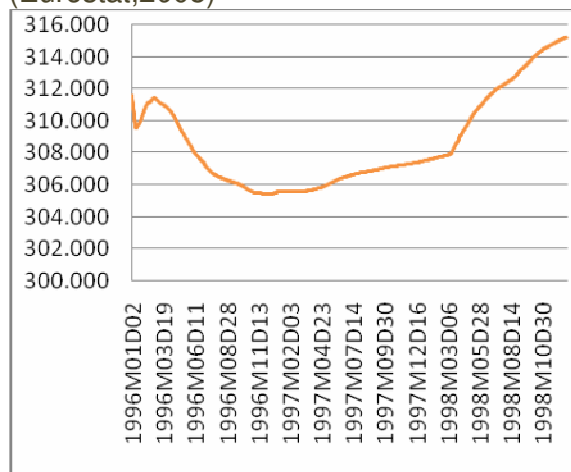
5.a. Greece, the Lamfalussy Rule and Pressures on the Economy

As it was argued above, Greece followed a very unique and successful exchange rate policy in order to manage to qualify for accession (ibid, 2000: 65). Nevertheless, this paper will argue that the conversion rate of 340.75 Drachmas per Ecu which was set following the CEPR method was sub optimal. In other words, the conversion rate by which the Greek Drachma was exchanged for the euro on the introduction of the Monetary Union was not representative of the actual value of the Drachma.

This is going to be established by a comparison of this conversion rate to a benchmark conversion rate. The benchmark conversion rate is going to be calculated using the Lamfalussy rule which as it was argued earlier, was deemed to be able to produce conversion rates more representative of the actual value of the currencies than the CEPR method could. Subsequently, with the help of the Mundell-Fleming model which was also presented earlier, the effects of this suboptimal conversion rate will be verified in the case of Greece.

By using the Lamfalussy rule as described in the books of David Begg et al (Begg et al, 1997: 36), and Paul Temperton (Temperton, 1997: 137), the benchmark conversion rate is calculated by the use of the average of the daily spot exchange rates of the Greek Drachma to the Ecu for the period 2/01/1996 to 31/12/1998. Graph 11 plots the curve of the values that the Drachma would have followed had the Lamfalussy value been used.

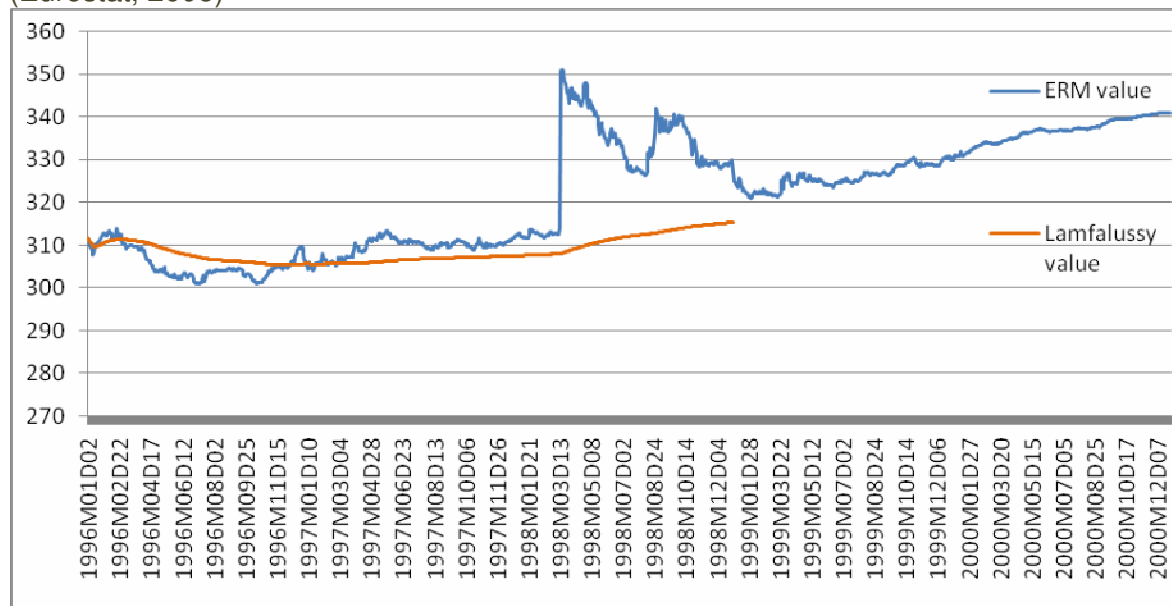
Graph 11: *The Lamfalussy Value of The Greek Drachma, Exchange Rate Data (Eurostat,2008)*



Of course, had the Lamfalussy rule been used, different policies might have taken place, as the markets might have reacted differently. However, this paper assumes that even if different policies had been followed, the difference on the final conversion rate of the currency would not have been significant enough to jeopardise the findings of this study. This is because assuming that the Lamfalussy rule was followed in detail, the announcement of the rule would have taken place on the 31st of December 1998 in order to reduce the risk of speculative attacks and politically driven devaluations (De Grauwe, 1994: 11). This implies that only the last year of the conversion rate determination process would have been prone to politically driven devaluations. Consequently, any devaluation in the last year of the conversion rate determination process would have to be of great magnitude in order to be able to affect significantly the average values which would have already been building up for two years.

Looking at Graph 11, the value by which the Greek Drachma would have entered the EMU had the Lamfalussy value been used is 315.24 Drachmas per Ecu. It is obvious that this conversion rate is significantly stronger than the 340.75 by which Greece actually entered the EMU. Graph 12 provides us with a very clear comparison between the ERM value of the Greek Drachma and its Lamfalussy value. The benchmark conversion rate provided by the Lamfalussy rule is 8.09% stronger than the ERM value. Hence, the conversion rate produced by CEPR method using the ERM, which was also the final conversion rate used in the creation of the EMU, in the case of Greece was 8.09% degrees depreciated relative to its optimal rate.

Graph 12: *The ERM value of the Greek Drachma compared to the Lamfalussy value (Eurostat, 2008)*



As this conversion rate locked at the day of the introduction of the single currency and the replacement of the Drachmas with Euros took place at this same rate, the Greek economy went through a depreciation of its currency by 8.09%. This virtual depreciation took place as David Begg et al argued on the CEPR study (Begg et al, 1997: 24) where the conversion rates at the start of EMU simply validated any depreciation of the currency.

Looking back to the Mundell-Fleming model, currency depreciations create certain pressures on the economy. As Graph 1 illustrated, depreciations affect directly both output productivity and the interest rates. A depreciation of the national currency leads to gains in competitiveness for domestic producers, which increases the trade balance in the short

run. This gain in competitiveness is a result of a shift of the LM curve to the right which increases output productivity. At the same time, the interest rates will drop in order to reduce the cost of money and boost investment. These effects should in return create inflationary pressures on the economy, and thus a reduction in unemployment according to the Phillips curve.

Therefore, assuming that the Greek conversion rate was depreciated by 8.09% relative to its optimal value, similar effects should be observed in the Greek economy on the introduction of the single currency. As Graph 9 illustrated, Greece indeed experienced a temporary increase in its trade balance during the four year period 1999-2002, peaking in 2000. Additionally an acceleration of the GDP is evident in Greece since 2000 as shown in Graph 10. These two facts prove that Greece experienced a gain in competitiveness relative to its European partners with the introduction of the Euro. This gain in competitiveness and increase of productivity was accompanied by a reduction of the interest rates. The downward path of both the long term interest rates and the one-year treasury bills up until 2005 is demonstrated in Graphs 3 and 4. Fact that was especially important for the Greek economy, as if interest rates of the same term did not equalise completely at the moment of transition into the currency union, riskless profit opportunities would exist in buying Greek bonds and selling Euro-land bonds (or vice versa). The only way to rule out these arbitrage transactions was to completely equalise interest rates (Atzoulatos et al: 16).

What is more, if one takes a close look at the inflation rate of Greece during the same period, a jump in the inflation rate is evident. While the CPI index was 2.6% in 1999, it steadily increased until it reached 3.6% in 2003 and has fluctuated around that value ever since. Therefore, Greece has experienced an increase in its inflation rate by 1% after joining the EMU. Things are much clearer in the Unemployment rate, as it has followed a declining path ever since 1999 reaching single digit values. Therefore, it is clear that the effects that the Greek economy experienced after the EMU accession are in line with the ones predicted by the Mundell-Fleming and Phillips Curve model; verifying this way that the Lamfalussy conversion rate calculated in this paper was indeed a more optimal conversion rate than the one by which Greece actually entered the EMU.

Mr. Nikolas Garganas, former Governor of the Bank of Greece in an interview with the author (Garganas, interview, 2008), claimed that the credibility bonus that Greece faced in joining the Monetary Union had great effects in the Greek economy. He argued that it assisted the Bank of Greece in reducing the interest rates in order to reach the European levels without causing significant inflationary pressures in the economy. Keeping this argument in mind, it is crucial to point out that had this credibility bonus not taken place after the EMU accession, the inflationary pressures experienced by the Greek economy could have been much deeper.

5,b. The Public Opinion in Greece and Exchange Rate Policies

Dobratz (Dobratz, 1993: 97-127) argued by employing data from the 80's that there was no link between the economic performance and the public opinion in Greece. This paper on the other hand, by employing data from 1996 to 2001, proves that there is a high correlation between the trend of the Greek public opinion and the performance of the Greek economy after the EMU accession. More specifically, this paper argues that a realignment of the determinants of the Greek public opinion with the economic effects that shape them took place, inverting this way the expected reaction that the public opinion had on the macroeconomic effects which took place due to this virtual currency devaluation. Following the theory put forward by Inglehart and Marslow (Lijphart, 1999: 152) on the evolution of society and its preferences, this paper will prove that the Greek society has evolved since

the 80's; fact that has made the public opinion trends to be increasingly more affected by the performance of specific economic indicators.

When studying Greece, it is important to understand that the 80's was a period where Greece was still trying to find its identity. The military coup was overthrown, and democracy was established in 1974 after the '*metapolitefsi*'⁵ (Lazaretou, 2003: 42), while The Prime Minister Konstantinos Karamanlis managed to lead a successful campaign for Greece to enter the European Communities in 1981 with the slogan '*we belong to the west*' (Economides, 2005: 473). Nonetheless, since Greece did not receive any major economic funding at the time of its accession, it has been argued that Greece's major interest and gain from the membership in the European Communities at that point of time, was the security against the constant threat from Turkey (Featherstone et al, 1987: 237). People were still mainly interested mostly on the '*National Issues*' (Economides, 2005: 482), including physical security and the establishment of democracy, while the economic performance was of secondary importance.

Fifteen years later, and after a long period of abysmal economic performance considering the European standards, corruption scandals (Featherstone et al, 2000: 396) and government instabilities, the Greek population believed that Mr. Simitis with his technocratic profile and a pro European reputation was the fittest person to lead them to a new era. Mr. Kostas Simitis became the Prime Minister of Greece in 1996 after Mr. Papandreou had to step down due to health issues and later won the national elections. Accession in the EMU by 2001 became his priority target as a part of a '*modernisation*' project (Simitis, 2004). Simitis and his government managed to persuade the Greek population that it was of great importance and benefit to them to assist in achieving this target. Failure to do so would mean that Greece would once again suffer from exclusion from the European core. '*The multiple changes that gradually took place over the period 1996-2003 along with the vast turn to a systematic approach of economic policies with macroeconomic targets, led the Greek society out of a rigid economy which was costly at many levels*' (Giannitsis, 2005: 239).

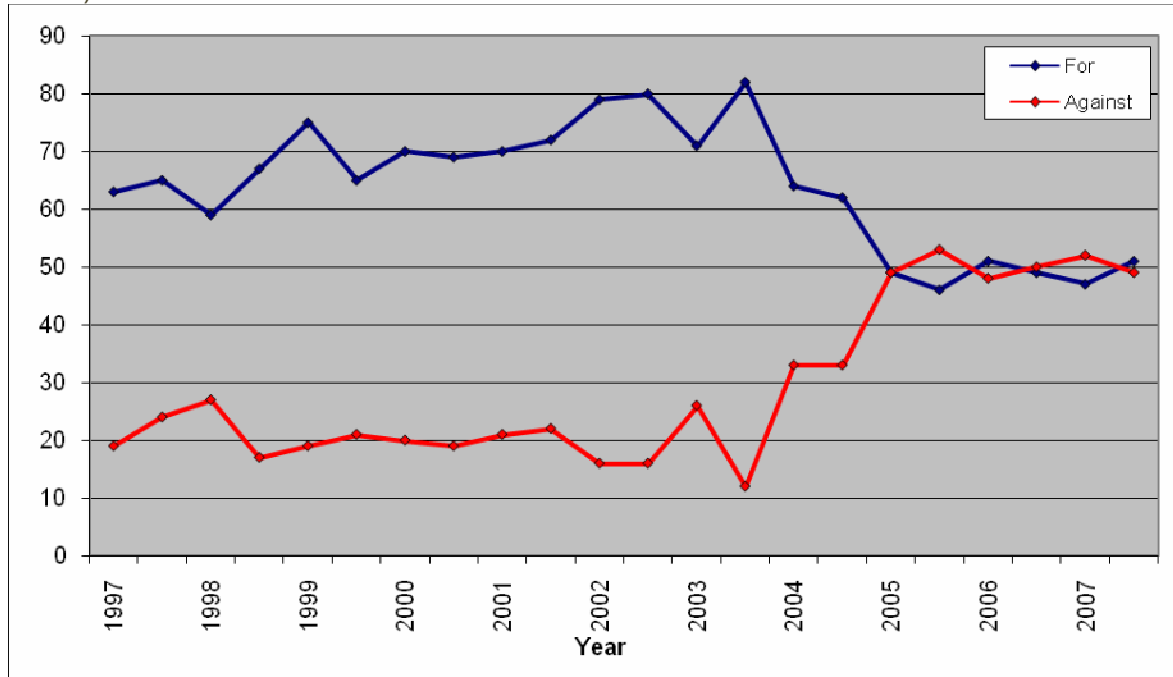
The EMU was a golden opportunity for Greece to modernise by taking advantage of the external empowerment (Pagoulatos. 2000: 191-216) provided by this project. The government was given the ability to use the EMU target as a '*vincolo esterno*'⁶ (Dyson et al, 1999: 455) in order to legitimise the necessary unpopular policies to the markets and the public. What is more, for countries such as Greece where a high inflation tradition is in place, the time inconsistency theory (Chellini et al: 2) argues that reduction of inflation is only attainable through the credibility bonus gained by joining a monetary union of less inflationary countries.

The EMU project enjoyed full recognition by the Greek public. In fact, the public opinion for the single currency in Greece was one of the highest in the EU from 1997 to 2003 reaching the levels of 82% in 2003 (Standard Eurobarometer 33-69). The majority of Greeks wanted their country to enter the EMU, which provided Greek policy makers with enough room to perform the necessary policies in order to achieve this, no matter how harsh they had to be. Extremely contractionary policies along with a large privatisation programme took place, which at any other point would have not been accepted by the Greek public. Even the opposition parties, with the exception of the Communist Party of Greece did not oppose the necessity of these strict policies in recognition of the importance of the EMU target (Pagoulatos, 2003: 129). Therefore, it is a fair claim that the EMU project in the case of Greece enjoyed great levels of public acceptance, fact that empowered the government and provided it with great freedom in the formation of its monetary policy.

⁵ Metapolitefsi: Greek word translated as polity or regime change.

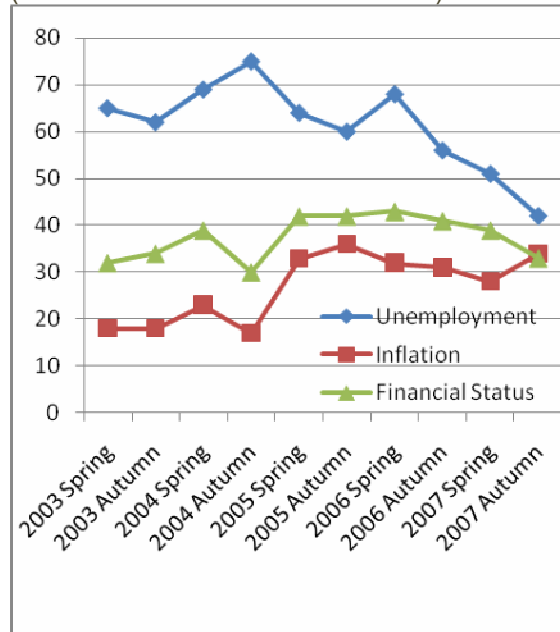
⁶ Vincolo Esterno: Italian phrase translated as external constraint.

Graph 13: *The Greek Public Opinion for the Single Currency* (Standard Eurobarometer 33-69)



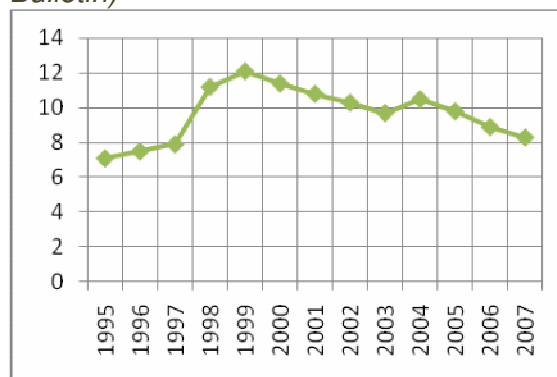
However, before the ways in which the public opinion was affected by the exchange rate policies examined, the determinants of the public opinion in Greece have to be discussed. As it is presented in Graph 14, the Greek public opinion in 2003 considered the unemployment rate as Greece's biggest problem. This trend has been steadily changing ever since, as the importance of the unemployment rate has declined by 23 degrees, while the importance of the inflation rate has increased by 16 degrees. This increase in the importance of the inflation rate on the Greek public opinion was initiated by the high dissatisfaction that was expressed for the rounding up of prices with the introduction of the Euro. However, instead of fading away as people adjusted to the new situation, this trend was maintained and the inflation rate has been increasingly important in the formation of the Greek public opinion. This leads us to the conclusion that while the Greek public opinion was mainly influenced by the performance of the unemployment rate in 2003, it has been increasingly more influenced by the inflation rate performance ever since.

Graph 14: *The Greek Public Opinion on the Biggest Problems Greece Faces* (Standard Eurobarometer 33-69)



Looking at the public opinion towards the single currency since 1997 in Greece, one can observe an abrupt change in the pattern of the trend, as it turns from one of the most positive opinions to one of the most negative. This change starts taking place in 2003. According to the theory and looking at Graph 14, the public opinion is influenced by economic performance, and most importantly by the unemployment rate, and increasingly by the inflation rate. During the 80's while the Greek economy was performing very badly, unemployment was never a problem. The extreme policies followed on the run up to EMU trying to reach the nominal criteria set by the Maastricht treaty let to an unprecedented for the Greek standards increase in the unemployment rates.

Graph 15: *Registered Unemployment Rate for Greece (Bank of Greece, Bulletin)*



The recognition that the EMU project enjoyed made people accept the high unemployment rates as an unavoidable evil on the run up to EMU. People accepted to sacrifice their economical well being temporarily; expecting that they would be better off once the single currency was introduced. Therefore, the highly positive public opinion is consistent with the assumptions of this paper. The exchange rate policy was boosting the economy, while the high unemployment rate was the only negative outlier; however, as it was overlooked by the Greek public due to the wide acceptance of the EMU project, it did not affect the highly positive public opinion.

After the introduction of the single currency, things changed. While the depreciation of the drachma boosted the Greek economy, its effects were not big enough to satisfy the public. According to Eurobarometer data, only 67% of the Greek population was satisfied with their daily life standards in 2006, figure way below the 81% EU average (Standard Eurobarometer 65, 2008). These data are also consistent with the fact that the Labour Unit Costs (Graph 8) have not risen above the inflation rate since the introduction of the new currency. While the economy was now running in much better conditions than it was before the project started, people were not feeling any better off. The illusion that the economy was running in worst terms than before existed amongst the Greek population, in fact 76% of the Greek population in 2007 answered that the economic performance of their country has worsened (Standard Eurobarometer 68, 2008). The gains in competitiveness have been steadily reducing the unemployment rate in Greece; nevertheless, it was still higher than what the public expected, and definitely higher than what it was before the project started.

As it is illustrated in Graph 14, the interest of people in the unemployment rate has been declining since 2003; instead, people are increasingly more interested in the inflation rate. An evolution of the determinants of the Greek public opinion is evident at this point. While prior to 2003 the determinants of the public opinion were those of a classic high inflationary country, where the unemployment rate is the sole factor which concerns the public, after 2003 people in Greece start realising the importance of the inflation rate in their lives. The Greek society becomes more similar in its concerns with the rest of Europe. The increasing levels of education, the technological advancements which have brought easy access to information, or simply the evolution of society has made the Greek public increasingly less interested in the levels of unemployment and more concerned on the value of their money and their financial status. While fifteen years ago people were concerned about actually having a job, now that is considered as a given; shifting this way the society's attention on the next big problem, inflation.

Fact that verifies the hypothesis that a link exists between the exchange rate policy of Greece and the trends of the public opinion holds true, but in different ways for the period in the run up to EMU, and after the introduction of the single currency. In the period 1997-2003 one can clearly observe that the exchange rate policy was affected positively by the public opinion as any negative effects, in the terms of high unemployment rates, were accepted by the Greek population without any major reactions. The wide public acceptance that the EMU project enjoyed provided the government with a blank sheet on the monetary and exchange rate policy it wished to follow.

During the second period 2003-2007 while according to the hypothesis, the devaluation should have affected positively the public opinion as one of its main effects was the reduction of the unemployment rate, which up to that point was the main determinant of the Greek public opinion, the opposite takes place. The evolution of the Greek public opinion caused a realignment of its shaping factors. By increasingly focussing on the inflation rate rather than the unemployment rate, the public opinion did the opposite of what was expected of it. While the unemployment rate was declining as a result of the currency devaluation which took place on accession, fact that would have pleased the public in the past; the inflationary pressures felt in the economy now turned the public against the single currency. The people were now increasingly more concerned about the value of their money and their financial status rather than the levels of unemployment.

Considering the effects observed in this two time periods, it is clear that even though the evolution of the public opinion realigned its determinants with the economic effects that shape it; the economic effects caused by the virtual devaluation of the Greek national currency which took place on accession to the EMU, affected negatively the Greek public opinion towards the euro, turning it from one of the most positive ones to one of the most negative ones after 2003.

Conclusions

The economic theory states that the method used for determining the conversion rates upon the creation of a Monetary Union is very important as the conversion rates can directly affect many sectors of the economies involved. This study examined the case of Greece and its entrance in the EMU. Its aims were to determine whether the conversion rate which was used for the Greek accession was representative of the economy; whether there is a link between economic performance and the public opinion in Greece, and in what ways did the accession process affect the public opinion. Three original conclusions are reached within this study.

In the first part, the fact that Greece entered the Monetary Union with a sub optimal conversion rate is presented. This argument was made by the calculation of a benchmark conversion rate, using the Lamfalussy rule which is a method deemed to produce conversion rates more representative of an economy than the CEPR method which was actually used. The comparison of the benchmark conversion rate with the actual rate indicates that Greece entered the EMU with a devalued currency. In order to verify this finding, the effects experienced by the Greek economy after the EMU accession were compared with the effects that the Mundell-Fleming model assumes in the case of currency devaluation, confirming the fact that Greece entered the EMU with a devalued currency.

This study has argued that the method used for determining conversion rates in the EMU has not been always optimal. The case of Greece clearly demonstrates that a country can manipulate its exchange rate in order to take advantage of its entrance in the EMU with a competitive advantage. These findings should alert countries planning to enter the EMU, as

well as members of the EMU that might lose in competitiveness if new members take advantage of this weakness in the conversion rate determination method applied till now.

On the second part of the analysis, two more conclusions are reached. The first is that a link between the public opinion and the economic performance in Greece is evident. The high importance of the unemployment rate in the formation of the Greek public opinion trends illustrated by the Eurobarometer data in 2003, explains to a large extent the increasingly negative opinion towards the single currency. Moreover the fact that the Greek population feels worse off after the introduction of the single currency proves that the economic performance is a very important determinant in the shaping of the public opinion.

The second conclusion reached in this part, is that while the exchange rate policy for EMU accession provided Greece with a competitive advantage, the public opinion was not satisfied by the performance of the economy. According to the theory presented, the opinion of the Greek public should have steadily become more positive after the introduction of the Single Currency; instead, the opposite is observed.

This odd trend is explained by two facts, the first is that the Greek public wanted to express its dissatisfaction to what it felt was unfulfilled promises, more specifically an economic performance of lower standards than the high expectations which were built up in the pre EMU period. While the second, is the fact that the Greek public opinion is evolving and becoming more similar to those in the rest of Europe. This similarity comes in the terms of the determinants of the public opinion; for the last four years there is an obvious decrease in the importance of the unemployment rate in the public opinion formation, while at the same time there is a constant increase in the importance of the inflation rate.

Therefore, while there is a clear link between the Greek public opinion and the economic performance, the still evolving Greek society and the high expectations that Greece had from the EMU project, did not allow for the positive economic effects of the 1998 currency devaluation to influence positively the public opinion. Instead, the realignment of the determinants of the Greek public opinion with the economic effects that shape them, made the public focus on the negative effects of this currency devaluation, fact that triggered this abrupt change in the trend of the public opinion towards the single currency.

Bibliography

7,a. Articles

Alogoskoufis George, 'Monetary Accommodation, Exchange Rate Regimes and Inflation Persistence', *The Economic Journal*, Vol 102, No 412, May 1992, pp. 461-480.

Anderson Christopher O'Connor Kathleen, 'System Change, Learning and Public Opinion about the Economy', *British Journal of Political Science*, Vol 30, No 1, Jan 2000, pp. 147-172.

Anzoulatos Angelos, Bernard Wilfing, 'Exchange and Interest Rates prior to EMU the case of Greece', *HWWA Hamburg Discussion Paper*, 244.

Arghyrou Michael, Luintel Kul, 'Government Solvency: Revisiting some EMU Countries', *Brunel University, Department of Economics and Finance*, JEL: E60, F41, N10.

Bahmani-Oskooee Mohsen, M. Kutan Ali, Zhou Su, 'Do Real Exchange Rates Follow a Non-Linear Mean Reverting Process in Developing Countries?', *The Centre for Research on International Economics and the Department of Economics*, The University of Wisconsin-Milwaukee.

Bauer Christian, De Grauwe Paul, Reitz Stefan, 'Exchange Rate Dynamics in a Target Zone – A Heterogeneous Expectations Approach', *Journal of Economic Dynamics & Control*, Doi: 10.1016/j.jedc.2008.05.008.

- Begg David, Francesco Giavazzi, Jurgen von Hagen, Charles Wyplosz, 'EMU Getting the Endgame Right', London: *Centre for Economic Policy Research*, 1997.
- Bernard William, Leblang David, 'Polls and Pounds: Public Opinion and Exchange Rate Behaviour in Britain', *Quarterly Journal of Political Science*, 2006, 1: pp. 25-47.
- Bohn Frank, 'Monetary Union and the Interest-Exchange Rate Trade-off', *Essex University, Department of Economics*, May 2003.
- Brecker Werner, 'The Euro turns Ten, Growing Up', *Deutsche Bank Research, Reports on European Integration*, EU Monitor 57, 23 July 2008.
- Cellini Roberto, Lambertini Luca, 'The issue of time inconsistency revisited as an extended game', *Department of Economics and Quantitative Methods*, University of Catania.
- Chobanov Dimitar, Sorosa Piritta, 'Competitiveness in Bulgaria: an Assesmant on The Real Effective Exchange Rate', *IMF Working Paper*, WP/04/37.
- De Grauwe Paul, Grimaldi Marianna, 'Exchange Rate Puzzles: A Tale of Switching Attractors', *European Economic Review*, 50, 2006, pp. 1-33.
- De Grauwe Paul, Senegas Marc-Alexandre, 'Monetary Policy Design and Transmission Assymetry in EMU: Does Uncertainty Matter?', *European Journal of Political Economy*, 22, 2006, pp. 787-808.
- De Grauwe Paul, 'How to Fix Conversion Rates', *International Macroeconomics, Discussion Paper Series*, 1994, No 1530.
- De Grauwe Paul, Dewachter Hans, Veestraeten Dirk, 'Price Dinamics under Stochastic Process Switching: Some Extentions and anApplication to EMU', *Journal of International Money and Finance*, 18, 1999, pp.195-224.
- De Grawe Paul, Spaventa Luigi, 'Setting Conversion Rates for the Third Stage of EMU', *Centre of Economic Policy Reaserch*, International Macroeconomics, Disscussion Paper Series, 1997, No 1638.
- Dimitaras Panayote, 'The Pro EEC-Conversion of the Greek Public Opinion (1981-90)', *International Journal of Public Opinion Research*, Vol 4, No 1.
- Dobratz Betty, 'Changing value orientations and attitudes toward the European Community: a comparison of Greeks with citizens of other European Community nations', *East European Quarterly*, 1993, 27, pp. 97-127.
- Economides Spyros, 'The Europeanization of Greek Foreign Policy', *West European Politics*, 2005, 28:2, pp. 471 – 491.
- Erlandsson Mattias, 'Economic Determinants of Public Opinion about Joining the EMU: the Case of Sweden', *Goteborg University, Department of Economics*, 9 August 2002.
- Featherstone Kevin, Kazamias Georgios, Papadimitriou Dimitris, 'Greece Negotiations of Economic Performance and Monetary Union: Prefences, Strategies, and Institutions', *Journal of Modern Greek Studies*, Vol 18, 2000.
- Featherstone Kevin, 'Greece and EMU: Between External Empowement and Domestic Vulnerability', *JCMS 2003*, Vol 41, No 5, pp. 923-940.
- Featherstone Kevin, 'Varieties of Capitalism and the Greek case: explaining the constraints on domestic reform?', *Hellenic Observatory Papers on Greece and Southeast Europe*, GreeSE Paper No 11, February 2008.
- Frieden Jeffry, Lake David, 'International Relations as a Social Science: Rigor and Relevance', *ANNALS, AAPSS*, 600, July 2005.
- Frieden Jeffry, 'Globalization and exchange rate policy', (URL: http://www.people.fas.harvard.edu/~jfrieden/Selected%20Articles/Misc_Works/Globalization_and_exchange_rate_policy.pdf), Last accessed 21 July 2008.
- Hibbs Douglas Jr, Henrik Madsen, 'The Impact of Economic Performance on Electoral Support in Sweden, 1967-1978', *Scandinavian Political Studies*, 4, 1981, pp. 33-50.
- Ioakimides P, 'The Europeanisation of Greece: An Overall Assessment', *South European Society and Politics*, 5:2, pp. 73-94.
- Jonung Lars, Eskil Wadensjo, 'The Effect of Unemployment, Inflation and Real Income Growth on Government Popularity in Sweden', *Scandinavian Journal of Economics*, 83 (1979), pp: 343-53.

- Lipinska Anna, 'The Maastricht Convergence Criteria and Optimal Monetary Policy for the EMU Accession Countries', *European Central Bank, Working Paper, N 896/ May 2008*.
- Mattila Mikko, 'Economic Changes and Government Popularity in Scandinavian Countries', *British Journal of Political Science*, Cambridge University Press, Vol. 26, No. 4, (Oct., 1996), pp. 583-595.
- Milas Costas, 'Labour Market Decisions and Greek Manufacturing Competitiveness' *Journal of Policy Modelling* 21(4), 1999, pp. 505–513.
- Miller Arthur, Listhaug Ola, 'Economic Effects on the Vote in Norway', *Political Behaviour*, 6, 1984, pp. 301-19.
- Mourmouras Iannis, Arghyrou Michael, 'Monetary Policy at the European Periphery, Greek Experience and Lessons for Transition Economies', *CERT*, Discussion Paper No 99.10, November 1999.
- Nannestad Peter, Paldam Martin, 'Sammenhengen mellem samfunds0konomi, privat0konomi og tilslutningen til regeringspartiene. Nogle metodeproblemer, Markus' model og en analyse af tilslutningen til KVR-regeringen 1988-1990', *Politica*, 25, 1993, pp. 189-206.
- Pagoulatos George, 'Economic Adjustment and Financial Reform: Greece's Europeanization and the Emergence of a Stabilization State', *South European Society and Politics*, 5:2, 2000, pp. 191 – 216.
- Preda Alex, 'Bolshevism into Formulas: A Historical Sociology of the Euro Conversion Method', *Conference Inside Financial Markets*, May 16-18, University of Konstanz.
- Prodromidis Prodromos-Ioannis, 'Deriving Labour Market Areas in Greece from commuting flows', *Centre for planning and Economic Research*, No 99.
- S0rensen Rune J0rgen, 'Macroeconomic Policy and Government Popularity in Norway, 1963-1986', *Scandinavian Political Studies*, 10, 1987, pp. 301-21.
- Sachs Jeffrey, 'Wages, Flexible Exchange Rates, and Macroeconomic Policy', *The Quarterly Journal of Economics*, Vol 94, No 4, Jun 1980, pp. 731-747.
- Sophia Lazaretou, 'Greek Monetary Economics in Retrospect: The Adventures of the Drachma', *Bank of Greece, Working Paper*, No 2, April 2003.
- Stimson James, 'Public opinion in America: moods, cycles, and swings', *Jurnal of Public Policy*, Vol 1, No 1, Feb 1981.
- Stobbe Antje, Fischer Christian, 'Greece - Twelfth member of EMU', *EMU Watch*, June 2, 2000 No. 85, *Deutsche Bank Research*: Frankfurt Main Germany.
- Stucka Tihmir, 'The Effects of Exchange Rate Change on the Trade Balance in Croatia', *IMF Working Paper*, WP/04/65.
- Trede Mark Wilfling Bernd, 'Estimating Exchange Rate Dynamics with Diffusion Processes: An Application to the Greek EMU Data', *HWWA Hambourg*, Discussion Paper, Vol 267, 2004.

7.b. Books

- Blanchard Oliver (2003), '*Macroeconomics Third Edition, International Edition*', London: Pearson International Edition.
- Bryant Ralph, Garganas Nikolaos, Tavlas George (2001), '*Greece's Economic Performance and Prospects*', Athens: Bank of Greece, the Brookings Institution.
- Clog Richard (1992), '*A Concise History of Greece*', Oxford: Oxford University Press.
- Close David (2002), '*Greece since 1945, Politics, Economy and Society*', England: Pearson Education Limited.
- Copeland Laurence (2005), '*Exchange Rates and International Finance, Fourth Edition*', Essex: Pearson Education Limited.
- Couloumpis Theodor and Kariotis Theodor and Bellou Fotini (2003), '*Greece in the Twentieth century*', London and New York: Frank Cass.

- De Grawe Paul (2007), *'Economics of Monetary Union, seventh edition'*, Oxford: Oxford University Press.
- Dyson Kenneth, Featherstone Kevin (1999), *'The Road to Maastricht: Negotiating Economic and Monetary Union'*, Oxford: Oxford University Press.
- Featherstone Kevin, Katsoutas Dimitrios (1987), *'Political Change in Greece, Before and After the Colonels'*, Kent: Croom Helm Ltd.
- Giannitsis Tassos (2005), *'Greece and the Future'*, Athens: Polis.
- Hix Simon (2005), *'The Political System of the European Union, second edition'*, Hampshire: Palgrave Macmillan.
- Inglehart Ronald (1990), *'Culture Shift in Advanced Industrial Society'*, Princeton: Princeton University Press.
- Inglehart Ronald (1977), *'The Silent Revolution: Changing Values and Political Styles among Western Politics'*, Princeton: Princeton University Press.
- Koliopoulos S, Veremis Thanos (2007), *'Greece, the Modern Sequel, from 1821 to the Present'*, United Kingdom: C. Hurst & Co LTD.
- Krugman Paul, Obstfeld Maurice (2006), *'International Economics, Theory and Policy, International Seventh Edition'*, London: Pearson International Edition.
- Leonard Dick (2005), *'Guide to the European Union, the Definitive Guide to all Aspects of the EU, ninth edition'*, London: The Economist in association with Profile Books.
- Lijphart A (1999), *'Patterns of Democracy: Government Formation and Performance in Thirty-Six Countries'*, New Heaven and London: Yale University Press.
- Martin Andrew, Ross George (2004), *'Euros and Europeans, Monetary Integration and the European Model of Society'*, Cambridge: Cambridge University Press.
- Pagoulatos George (2003), *'Greece's new Political Economy, State, Finance and Growth from Postwar to EMU'*, New York: Palgrave Macmillan.
- S0ersen Peter. Whitta-Jacobsen Hans (2005), *'Introducing Advanced Macroeconomics: Growth & Business Cycles'*, Berkshire: McGraw Hill Education.
- Simitis Kostas (2004), *'Policy for a Creative Greece 1996-2004'*, Athens: Polis.
- Talani Leila Simona (2004), *'European Political Economy, Political Science Perspectives'*, England: Ashgate Publishing Limited.
- Temperton Paul (1997), *'The Euro'*, West Sussex: John Wiley and Sons Ltd.
- Theodorson George, Achilles Theodorson (1969), *'Modern Dictionary of Sociology and Related Disciplines'*. New York: Crowell.
- Verdun Amy (2000), *'European Responses to Globalisation and Financial Market Integration, Perceptions of Economic and Monetary Union in Britain, France and Germany'*, London: Macmillan Press LTD.
- Visser Hans (2004), *'A Guide to International Monetary Economics, Exchange Rate Theories, Systems and Policies'*, Cheltenham: Edward Elgar Limited.

7,c. Reports

- Bank of Greece, *'Monetary Policy Interim Report'*, 1998 to 2007, Economic Research Department, Athens: Bank of Greece Printing Works.
- Bank of Greece, *'Bulletin of Conjunctural Indicators'*, 2000, Economic Research Department, Statistics Department, Athens: Bank of Greece Printing Works.
- European Commission, *'One Currency For Europe, Green Paper on the Practical Arrangements for the Introduction of the Single Currency'*, 1995, Luxembourg: Office For Official Publications Of The European Communities.
- Maastricht Treaty, *'Article 109,1'*, (URL: <http://www.eurotreaties.com/maastrichtec.pdf>) Last accessed 21/08/2008.
- OECD Factbook, *'Economic, Environmental and Social Statistics'*, 2008, ISBN 92-64-04054-4 - © OECD 2008.
- Standard Eurobarometer, *'Public Opinion in the European Union, National Report - Greece'*, 33-69, European Opinion Research Group, (URL:

http://ec.europa.eu/public_opinion/archives/eb_arch_en.htm), Last accessed 15 August 2008.

The Economist Intelligence Unit, *'Greece, CountryProfile'*, 1997 to 2005', London.

7.e. Speeches and Interviews

Garganas Nicholas, Deputy Governor of the Bank of Greece, *'The Challenges for Greek Monetary Policy on the Eve of Euro-Zone Entry'*, London, 15 February 2000, (URL: http://www.bankofgreece.gr/en/announcements/text_speech.asp?speechid=9) last accessed 21/08/2008.

Garganas Nicholas, Governor of the Bank of Greece, *'Exchange-rate regimes on the road to EMU: lessons from Greece's experience'*, Luncheon address by Mr Nicholas C Garganas, Governor of the Bank of Greece, at the Seminar on *'Monetary Strategies for Accession Countries'*, Hungarian Academy of Sciences, Budapest, 28 February 2003.

Garganas Nikolas, Former Governor of the Bank of Greece, Interview with author, 2 July 2008.

7.d. Websites

Athens News Agency: News in English (PM), 98-03-15 (URL: The Athens News Agency <http://www.ana.gr>) last accessed 12 June 2008.

Eurostat (URL: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/ert/ert_h&language=en&product=EU_MASTER_exchange_rates&root=EU_MASTER_exchange_rates&scrollto=0), last accessed 18 August 2008.

OECD Economic Outlook 83 database. (URL: http://www.oecd.org/document/4/0,3343,en_2649_33733_20347538_1_1_1_1,00.html), last accessed 16 August 2008.

Email: Angelos.Gkanoutas-Leventis.1@city.ac.uk

© Angelos Gkanoutas-Leventis 2010